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Greece, Spring 2024

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European Commission
Directorate-General for Economic and Financial Affairs

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This Post-Programme Surveillance Report was prepared in the Directorate General-General for Economic and Financial Affairs of the European Commission under the guidance of Declan Costello, Deputy Director General, Luc Tholoniat, Director and Júlia Lendvai, Head of Unit for Greece ([1]).

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The report was prepared in liaison with staff from the European Central Bank ([2]). Staff from the European Stability Mechanism also provided comments.

This report reflects information available and policy developments that have taken place up to 30 April 2024. The macroeconomic and budgetary projections, including those underlying the debt sustainability analysis, are in line with the Commission's Spring 2024 Economic Forecast released on 15 May 2024 (with cut-off date of 30 April 2024).

Comments on the report are welcome and should be sent, by mail or e-mail, to:

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(1) The executive summary of this report was adopted as Commission Communication C(2024)4004 on 18 June 2024. The rest of the report reflects the findings of the staff working document (SWD(2024)404) accompanying that Communication.

(2) European Central Bank (ECB) staff participated in this mission, and in the drafting of this report, in accordance with the ECB's competences and therefore provided expertise on financial sector policies and macro-critical issues, such as headline fiscal targets and sustainability and financing needs.

EXECUTIVE SUMMARY

The fourth post-programme surveillance mission to Greece took place from 8 to 15 April 2024. It involved European Commission staff in liaison with European Central Bank (ECB) staff. European Stability Mechanism (ESM) staff participate on aspects relating to its Early Warning System, and staff from the International Monetary Fund also participated.

Economic activity is expected to pick up slightly, with growth continuing to exceed the long-term potential in 2024-2025. Greece registered 2% real GDP growth in 2023, well above the EU and euro area average of 0.4%. Output growth is expected to regain momentum, supported by accelerating investments and solid private consumption growth, reaching 2.2% and 2.3% in 2024 and 2025, respectively. Following a period of stable inflation rates since mid-2023, inflation is expected to decrease at a moderate pace reaching 2.8% in 2024 and 2.1% in 2025. Price pressures are set to ease only gradually due to still persistently high food inflation and solid wage growth fuelled by tightening labour market conditions and the recent minimum wage increase. Unemployment is projected to continue declining, although the improvements in the labour market are expected to be slowed by strong labour market segmentation. Despite a marked decrease in the current account deficit in 2023 to 6.3% of GDP, it remains high and is set to narrow only moderately in the coming years due to an expected increase in the import of capital goods amid stronger investment activity.

The headline budget deficit improved in 2023 and is expected to improve further to 1.2% of GDP in 2024 and 0.8% in 2025. The improvement in 2023 was mainly driven by the energy measures being phased out. The improvement in both years is mainly driven by the muted growth of current expenditure. The authorities have taken a number of fiscal measures in 2024, including the reform of self-employed taxation, that will have a slight positive impact on the budget balance overall. The total stock of arrears has increased, almost entirely due to arrears in hospitals; at the same time, the stock of pension arrears has further decreased.

Banking sector profitability was strong in 2023, while the workout of legacy debt by servicers is advancing but continues to face difficulties. The profitability of the banking sector remained strong in the second half of 2023, as net interest income stayed high with only minor repricing of deposits. The stock of non-performing loans in banks decreased further in 2023, driven primarily by sales of non-performing loans. Portfolio sales and securitisations using the relaunched Hellenic Asset Protection Scheme will likely remain the main tools used by banks to improve asset quality in 2024. The workout of legacy non-performing debt by servicers is advancing but still faces challenges, and various portfolios securitised under the original scheme continued to underperform. This is in particular due to judicial obstacles, mainly in the context of liquidation proceedings. These impact the conduct of auctions, resulting in lower-than-expected collections from collateral liquidations.

Financial sector policies to tackle various legacy issues are being implemented broadly on schedule and are set to be completed in 2024. The process of clearing the backlog of household insolvency cases is nearly completed, as almost all cases (99.5%) will have been heard in courts by mid-2024. The process for setting up the sale & lease back organisation is expected to be completed in autumn 2024. In the clearance of the backlog of called state guarantees, the authorities plan to process all claims by the end of 2024 and have legislated a series of provisions to clear remaining legal uncertainties. However, the actual payments for many guarantees given to corporates will be delayed as they will be subject to court decisions. Out-of-court workout restructurings have gained pace since the third quarter of 2023, showing that the workout platform has gained further traction after the targeted legal amendments. However, there is room to further facilitate the use of other tools from the new insolvency code, such as the second chance platform. The government also intends to start implementing a strategy to strengthen capital markets, including regulatory and tax reforms to improve the resilience and efficiency of financing through the capital market.

The Hellenic Corporation of Assets and Participations (HCAP) posted its best financial performance since it was established. The government plans to set up a growth investment fund under HCAP's responsibility and improve the functioning of state-owned enterprises in HCAP's portfolio by increasing their operational flexibility and commercial autonomy. Increasing HCAP's organisational and functional capacity and improving its in-house investment expertise, while safeguarding its operational autonomy, would be necessary for HCAP to fulfil its core tasks in transforming and managing state-owned enterprises, and to establish and effectively oversee the new growth investment fund.

The privatisation transactions managed by the Hellenic Republic Asset Development Fund are broadly on track. The initial public offering of a 30% shareholding in the Athens International Airport was oversubscribed, with investor orders more than 11 times the shares on offer.

The codification of the labour legislation is underway and still needs to be completed. The adoption of the related presidential decree would mark the fulfilment of the Eurogroup policy commitment which called for the adoption of the Labour Law Code and Code of Labour Regulatory Provisions to improve legal certainty and access to labour law.

Greece retains the capacity to service its debt. Greece was upgraded to investment grade by a third major rating agency in December 2023. According to the debt sustainability analysis, Greece is deemed to face low risks in the short term, high risks in the medium term and low risks in the long term. Government gross financing needs for 2024 and 2025 are low, on the back of projected primary surpluses and moderate debt amortisation, which is also due to the earlier partial pre-payment of the Greek Loan Facility. Greece retains a sizeable cash buffer and has maintained continuous market access amidst narrowing yield spreads following recent upgrades to investment grade.

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ACRONYMS

DTC: deferred tax credit

DSA: debt sustainability analysis

ECB: European Central Bank

EFSF: European Financial Stability Facility

ESM: European Stability Mechanism

HCAP: Hellenic Corporation of Assets and Participations

HICP: harmonised index of consumer prices

IMF: International Monetary Fund

MFI: monetary and financial institutions

MREL: minimum requirement for own fund and eligible liabilities

NPL: non-performing loan

PPS: post programme surveillance

RRP: Recovery and Resilience Plan

SPB: structural primary balance

1. INTRODUCTION

Staff from the European Commission, in liaison with staff from the ECB, conducted a mission from 8 to 15 April 2024 in the context of post programme surveillance (PPS). Staff from the European Stability Mechanism (ESM) participated in the meetings on aspects related to the ESM's Early Warning System, and staff from the International Monetary Fund (IMF) also participated. Under PPS, the Commission carries out bi-annual review missions to euro area Member States that have had a financial assistance programme. The objective of the PPS mission is to assess the economic, fiscal, and financial situation to ensure the Member State maintains its capacity to service debt to the European Financial Stability Facility (EFSF), the ESM and bilateral lenders ([3]).

Greece received assistance under three adjustment programmes between 2010 and 2018. Under the first economic adjustment programme, Greece received a financial assistance of EUR 52.9 billion in 2010 and 2011 under the Greek Loan Facility and EUR 20.1 billion from the IMF. Under the second economic adjustment programme Greece received EUR 141.8 billion from the EFSF and EUR 12 billion from the IMF between 2012 and 2014. Between 2015 and 2018, Greece received EUR 61.9 billion from the ESM under the third economic adjustment programme.

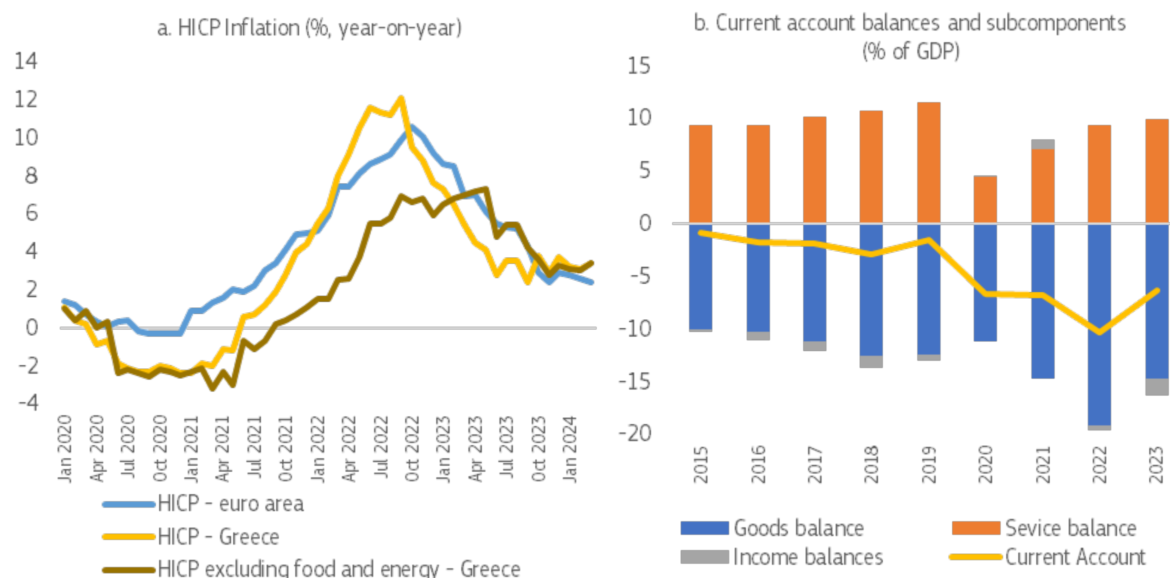
This report reflects information available and policy developments that have taken place until 30 April 2024. The macroeconomic and budgetary projections, including those underlying the debt sustainability analysis, are in line with the Commission' Spring 2024 Economic Forecast published on 15 May 2024 (with cut-off date of 30 April 2024).

([3]) Under Regulation (EU) No 472/2013, PPS will continue until at least 75% of the financial assistance received under the programme has been repaid. Under the current repayment schedule, PPS will last until 2059.

2. MACROECONOMIC DEVELOPMENTS

The Greek economy continued to grow at a solid pace in 2023, and real GDP growth is expected to pick up slightly in 2024-2025. Despite the waning post-pandemic recovery, GDP growth of 2% in 2023 remained well above Greece's long-term growth potential (estimated to be around 1%) as well as above the growth rates in the EU and euro area (0.4%). Growth was driven by consumption and to a lesser extent by investments and net exports, while inventories were a drag on growth. Private consumption growth is set to remain solid supported by real income growth and will ease only slightly to 1.6% by 2025 as pent-up demand fully subsides. High interest rates and supply side constraints took a heavy toll on investment activities in 2023. The expected decline in financing costs together with the accelerated implementation of investments related to the Recovery and Resilience Plan (RRP) and projects financed through the RRP Loan Facility are expected to give a strong push to investment growth, which is set to reach 6.7% in 2024 and 8.4% in 2025. Exports are forecast to accelerate on the back of a rebound in global trade, a recovery in transport services and sustained growth in tourism. However, import expansion will also remain elevated as investments, given their high import content would induce higher import demand. the contribution of net exports to growth is therefore expected to wane. Overall, real GDP is forecast to grow by 2.2% in 2024 and 2.3% in 2025.

Graph 2.1: **HICP inflation rate and current account balance**



Source: Eurostat, Bank of Greece

Price pressures are expected to gradually ease in 2024, and inflation is expected to reach 2.1% in 2025. The disinflation process came to a temporary halt in mid-2023 because of persistently high food inflation which, in the case of Greece, was exacerbated by the impact of floods and a stickiness in service prices. In the meantime, energy prices have continued to decline. HICP inflation averaged 4.2% in 2023 and 3.4% in March 2024, i.e., 1 percentage point above the euro area average

(see Graph 2.1). Price pressures are expected to ease only gradually in the near term due to persistent food inflation and solid wage growth amid minimum wage increases ([4]), wage hikes in the public sector and a gradually tightening labour market. Consumer prices are expected to increase by 2.8% in 2024 before declining to 2.1% in 2025. Inflation excluding energy and food is forecast to remain slightly higher, at 3.1% in 2024 and 2.2% in 2025. House prices have kept increasing and grew by 13.4% in 2023 driven by particularly strong foreign demand following the pandemic. House price increases are expected to decelerate thanks to a strong construction activity, but should remain solid in 2024-2025.

Structural challenges and emerging broader-based labour shortages limit the scope for a further strong improvement in the labour market. The employment rate increased by 1.1 percentage points to 67.4% (people aged 20-64) in 2023, reaching a historical peak, while the unemployment rate declined to a 15-year low of 10.5% in seasonally adjusted terms by Q1-2024. However, activity and employment rates remain among the lowest in the EU, while the unemployment rate is among the highest. The job vacancy rate increased, but stood 1 percentage point below the euro area average in Q4-2023, pointing to the emergence of broader-based labour shortages. These shortages were compounded by the persistently low activity rate and were more pronounced in manufacturing, construction, agriculture, professional, scientific and technical activities as well as in tourism-related services. Nonetheless, the Greek labour market appears less tight than in most other euro area countries and is more affected by structural challenges. A low activity rate, particularly among women, together with a high unemployment rate and increasing vacancies suggest that fiscal disincentives to work, the lack of adequate childcare and elderly care, labour market segmentation (especially skills mismatches) are still key impediments to increasing the effective labour supply. Employment is expected to increase further but at a slower pace, whereas the unemployment rate will near its structural equilibrium level estimated at 9.2% for 2025.

The external position improved in 2023, but the current account deficit remains above its pre-pandemic level. The current account deficit declined by 4 percentage points to 6.3% of GDP, supported mainly by favourable price dynamics ([5]) and growing revenues from tourism. However, the income balance deteriorated by 1.8% of GDP due to the rising cost of intercompany financing in line with tightening global financial conditions ([6]). At the same time, net interest payments on external debt remained low thanks to the concessional nature of a large part of external public debt. Looking ahead, the recovery in global trade compounded by increasing export market shares on the back of competitiveness gains and the expected decline in external financing costs are projected to support external rebalancing. Nevertheless, given their high import content, the pick-up in investments will keep import growth elevated, while recent increases in oil prices will

([4]) Greece raised its minimum wage by 6.4% as of April 2024, the fourth time in last 5 years (previous 9.4% increase was introduced in 2023).

([5]) Since goods imports surpass the level of goods exports to a large extent, besides the improving terms of trade, the parallel decline in export and import prices also largely contributed to the narrowing of the trade deficit in 2023.

([6]) Multinational companies' net interest payments related to intercompany loans are recorded under investment income.

have a negative impact on the terms of trade. Overall, the current account deficit is forecast to continue narrowing, albeit at a slower pace, reaching 5.3% in 2025. Net external borrowing is expected to decline somewhat faster than the current account deficit, thanks to the increase in EU capital transfers, including Recovery and Resilience Facility grants. External borrowing came to 5.1% of GDP in 2023 and is expected to decline to close to 3% of GDP by 2025 ([7]).

Greece's net external liability-to-GDP ratio declined in 2023, but the pace of improvement is projected to slow. Thanks to solid nominal GDP growth and favourable valuation effects, net international liabilities decreased by 3 percentage points to 140.5% of GDP, well below its pre-pandemic level, but still the highest in the EU. Nevertheless, the risks associated with external indebtedness are mitigated by the large part of external debt with very long maturities and interest rates fixed at low levels that is held by official EU creditors. The pace at which external indebtedness shrinks is forecast to slow as nominal GDP growth decelerates due to easing inflation. Despite a declining trend, external borrowing will remain sizeable. Overall, the net external liability ratio is set to decrease to 136.4% and 132.2% in 2024 and 2025 respectively.

Improving non-cost competitiveness and the growth potential remains key to further accelerating the unwinding of macroeconomic imbalances ([8]). Greece has secured sizeable cost competitiveness gains over the last decade, although this is down to substantial wage cuts rather than rising productivity. Greece is expected to preserve these gains as unit labour costs are projected to increase in line with those of trading partners. In the medium term, however, preserving competitiveness will require a significant rise in productivity. In a similar vein, Greek GDP in purchasing power standards per hour worked corresponded to just 57.4% of the EU average in 2023. This suggests that despite recent progress, the country maintains a substantial productivity gap with the rest of the EU. Furthermore, competitiveness rankings suggest that the Greek business environment is still less attractive than in most EU countries ([9]). Continued efforts will therefore be needed to improve the business climate and access to financing in order to facilitate investments. This will further increase productivity, enhance and improve the export capacity, and reduce import dependence.

The macroeconomic outlook remains positive amidst geopolitical uncertainty. A further escalation of the Middle East crisis or Russia's war of aggression against Ukraine can put pressure on energy prices, lead to trade disruptions and with it a downturn in tourism, resulting in a deterioration of the external balance, higher inflation, and slower GDP growth.

([7]) The current account balance, both the actual data and the forecast are based on the Balance of Payment statistics.

([8]) For a detailed assessment of imbalances and policy responses see: In-depth review for Greece in accordance with Article 5 of Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances, SWD(2024) 102 final.

([9]) Greece was ranked 49th (out of 64) in 2023 (see https://www.imd.org/centers/wcc/world-competitiveness-center/rankings)

3. PUBLIC FINANCE DEVELOPMENTS

3.1. FISCAL PERFORMANCE AND OUTLOOK

Greece's headline deficit turned out better than expected in 2023. It reached 1.6% of GDP, which corresponds to a primary surplus of 1.9% of GDP and interest expenditure of 3.5% of GDP. The better-than-expected headline deficit reflects a primary surplus that is 0.8 percentage points better than forecast in the Commission' Autumn 2023 Economic Forecast. This better-than-expected outturn is due to the under-execution of current state expenditure as well as lower health-care spending and social spending, despite the extraordinary subsidy to vulnerable households and the additional pension bonus which together amounted to 0.2% of GDP. Also, revenues exceeded expectations, especially on value added tax and personal income tax. Compared to 2022, when the primary balance was 0.1% of GDP, the improvement was primarily driven by the phase-out of the energy measures.

The Commission' Spring 2024 Economic Forecast expects the headline deficit to improve further to reach 1.2% of GDP in 2024. The improvement in the primary balance is mainly driven by the muted growth of current expenditure compared to revenue growth, especially social benefits, and the change in deliveries of military equipment. The subsidies to vulnerable households paid in 2023 are deemed to have been exceptional.

The authorities have taken a number of fiscal measures in 2024 that will have a slight positive impact on the balance overall. The reduction of the fixed tax for self-employed, which was originally envisaged for 2025 has been brought forward and a 50% reduction will already apply in 2024. At the same time, the authorities are implementing a reform of self-employed taxation: those reporting income below a specific threshold will be taxed based on imputed income rather than their reported income. Taxpayers can choose to challenge this imputed income, in which case they would undergo a full tax audit and would be taxed according to the income audited. The authorities have re-introduced the standard VAT rate on non-alcoholic drinks served in restaurants and cafeterias, from 13% to 24%. Reduced VAT rates were introduced in 2020 as a response to the COVID pandemic. Nevertheless, a significant portion of the VAT reductions made in 2020 remain in place. Similarly, the suspension of VAT on new buildings, which was set to expire in 2025, is now also expected to remain in place, to support the supply of new buildings. The measure to abolish the 30% reduction of pensions for working pensioners, while introducing an additional 10% levy on their work income, seem to have incentivised pensioners to take up jobs and/or to declare them. In the first quarter of 2024, the number of working pensioners increased by around 25% compared to the end of 2023. This measure is currently expected to be fiscally neutral. Furthermore, the authorities have increased birth benefits from EUR 2 000 to EUR 2 400-3 500, also retroactively for 2023, depending on the number of children in the household, and have announced they will increase housing subsidies for university students. The return of the special levy to farmers has also been made permanent.

The Commission's Spring 2024 Economic Forecast expects the headline deficit to decline by 0.4 percentage points in 2025, reaching 0.8% of GDP. This implies a primary surplus of 2.4% of GDP. On the expenditure side, the growth of the wage bill is expected to be muted, while military expenditure is expected to increase substantially compared to 2024. On the revenue side, the previously announced reduction of social contributions is expected to take place, and the fixed tax for the self-employed will be abolished altogether.

Fiscal risks appear broadly unchanged. Russia's war of aggression against Ukraine and the conflict in the Middle East are the main sources of risks, as well as the potential for further natural disasters. Further risks continue to stem from pending legal cases, most notably the litigation cases against the Hellenic Public Properties Company (ETAD). In addition, with the increasing minimum wage, wage pressures in the public sector are building up, which may prompt further adjustments in the public sector wage grid. Furthermore, the continued underperformance of the workout of some securitised NPLs could gradually increase the risk of some state guarantees being called. On the upside, the government's measures to fight tax evasion and improve compliance through the digitalisation of payments and tax processes could lead to higher-than-expected fiscal revenues.

3.2. POLICY ISSUES

The total stock of general government arrears has increased. It increased from EUR 541 million in July 2023 to EUR 880 million in January 2024. The increase has been almost entirely due to arrears in hospitals. The deviation from the target reached EUR 750 million.

Hospitals' stock of arrears is steadily increasing and reached EUR 480 million in January 2024, its highest level so far. This accounts for almost 55% of the general government's total stock of arrears. The full rollout of the Centralised Health Procurement Authority reform could potentially help accelerating payments as they will be made centrally and not by each hospital. However, this action alone might not be enough as the positive impact on arrears will not be immediate.

The stock of pension 6rears has further declined. Main pension arrears show good progress and are almost minimised (declining from EUR 18 million in July 2023 to EUR 11 million in January 2024). However, the clearance of lump sum arrears has slowed down over the past couple of months due to higher-than-expected new pension applications. The stock of lump sum arrears declined by EUR 6 million to EUR 114 million in January 2024. The authorities expect to clear the lump sum pension arrears in the public sector by July 2024, whereas the clearance of the lump sum arrears in the private sector is set to be achieved by the end of the year.

The codification of labour legislation still needs to be completed. Following the adoption on 26 September 2023 of Labour Law 5053/2023, which transposed EU Directive 2019/1152 on transparent and predictable working conditions (OJ 158/A/2023), the full labour code (which will also include the above law) still needs to be published in the Official Journal. The adoption of the related presidential decree would mark the fulfilment of the Eurogroup policy commitment that

called for the adoption of the Labour Law Code and Code of Labour Regulatory Provisions to improve legal certainty and access to law.

3.3. PUBLIC ASSET MANAGEMENT

The Hellenic Corporation of Assets and Participations (HCAP) posted its best financial performance since it was established. In 2023, its dividend income exceeded EUR 177 million and net profits reached EUR 154 million, compared with EUR 67 million in 2022. A major reason for the increased dividend income is Athens International Airport, which paid a dividend of EUR 171.3 million. At the same time, HCAP continued its efforts to improve efficiency, effectiveness, and profitability, together with improving f the services offered by its subsidiaries.

HCAP is set to accelerate the restructuring of state-owned enterprises. The long-awaited programme for the full recording and valuation of 36 000 properties held by the Hellenic Public Properties Company has started with the launch of the relevant tender procedure. The digital transformation of the Athens Urban Transport Organisation (OASA) has also started. Hellenic Post's (ELTA) transformation plan has been updated and an impairment loss of EUR 18.5 million was recorded, but the new management has already implemented measures such as the streamlining of the distribution network. This includes reducing of ELTA's own branches and substituting their services with third parties, which has started to bring benefits. The results for the first 2 months of 2024 are in turn better than during the same period in 2023.

In 2023, the Athens Water (EYDAP) and the Thessaloniki Water (EYATH) utilities were transferred from HCAP's portfolio to the Greek state. Following an independent assessment of the fair value of HACP's stakes in these water utilities (around EUR 600 million) that were removed from its portfolio, an amount equivalent to 50% of the transferred utilities' value will be used to reduce Greece's public debt. The remaining 50% will capitalise the growth investment fund, which will be set up and managed under the responsibility of HCAP.

The new growth investment fund aims to mobilise additional domestic and foreign direct investment in Greece. It will bridge the narrowing but still substantial investment gap in strategic areas including the green and digital transitions, with the longer-term ambition to become a sovereign investment platform committed to advancing the Greek economy and society as well as preserving and building wealth for the generations to come. The details of the scope and the functioning of the fund, which will follow international best practice, still need to be worked out.

The government plans to reform state-owned enterprises managed by HCAP. The reform aims to increase the operational flexibility and commercial autonomy of state-owned enterprises in HCAP's portfolio by improving procurement, remuneration and hiring policies and processes. Increasing HCAP's organisational and functional capacity and improving its in-house investment expertise, while safeguarding its operational autonomy, would be necessary to fulfil its core tasks in transforming and managing state-owned enterprises, and to establish and effectively oversee the new Growth Investment Fund.

The international public offering of part of the shares of Athens International Airport was successfully completed, and other privatisation transactions managed by the Hellenic Republic Asset Development Fund are broadly on track.

- The initial public offering of a 30% share in **Athens International Airport** on the Athens Stock Exchange generated EUR 784.7 million (gross proceeds) and was the largest initial public offering on the Greek market in the last two decades.
- The financial closing of the upcoming 25-year concession for the **Attiki Odos Ring Road** is expected in the fourth quarter of 2024, ensuring a seamless succession of concessioners. The concession agreement for the **Egnatia Odos Motorway** was signed on 29 March 2024 and the financial closing is now expected in the fourth quarter of 2024.
- For the **ports of Kavala and Heraklion**, the financial closing is pending ratification of the respective concession agreements by Parliament. For the **Port of Volos**, following the assessment of the binding offers by the fund and the declaration of the preferred investor and the runner-up preferred investor, the latter appealed to the Council of State, whose decision is expected for the fund to follow up the transaction.
- The fund in its capacity as **port planning authority**, is managing several port planning processes in parallel for the ports of Piraeus, Thessaloniki, Alexandroupolis, Elefsina, Lavrion, Rafina, Igoumenitsa, Corfu, Kavala, Volos, Patras and Heraklion, which are all ports in the fund’s portfolio, as well as for the ports of Kymi, Chalkida, Mytilene, Zakynthos and Skiathos. These planning processes are set to provide cost savings and improve resource management for the wider maritime infrastructure sector.

4. FINANCIAL SECTOR

4.1. FINANCIAL SECTOR DEVELOPMENTS

4.1.1. Asset quality

The reduction in non-performing loans (NPLs) resumed in the second part of 2023. In December 2023 the NPL ratio of the banking system was 6.6%, down from 8.7% in December 2022 and 8.4% in June 2023 ([10]). The improvement was driven primarily by inorganic actions including portfolio sales and the reclassification of some NPL portfolios as 'held for sale'. The NPL ratio remains the highest in the EU, substantially above the EU average. While the systemic banks are approaching the level of NPLs similar to peers in Southern Europe, the NPL ratios of less-significant institutions remain substantially higher on average, albeit with significant divergence among banks.

The Hellenic Asset Protection Scheme (also known as the Hercules scheme) has been relaunched by the government. The scheme has been instrumental in the drastic reduction of NPLs in recent years. When the scheme was relaunched in December 2023, the envelope of EUR 2 billion of additional state guarantees was made available for securitisations until the end of 2024. Apart from concluding the three pending securitisations, which were submitted by systemic banks before the previous scheme ended in October 2022, it is expected that some less-significant institutions will make use of it to clean up their balance sheets more rapidly. Based on the latest NPL reduction plans, it seems that the demand for guarantees exceeds the envisaged envelope. In future, banks will therefore have to continue resolving their NPLs without the use of the Hercules scheme.

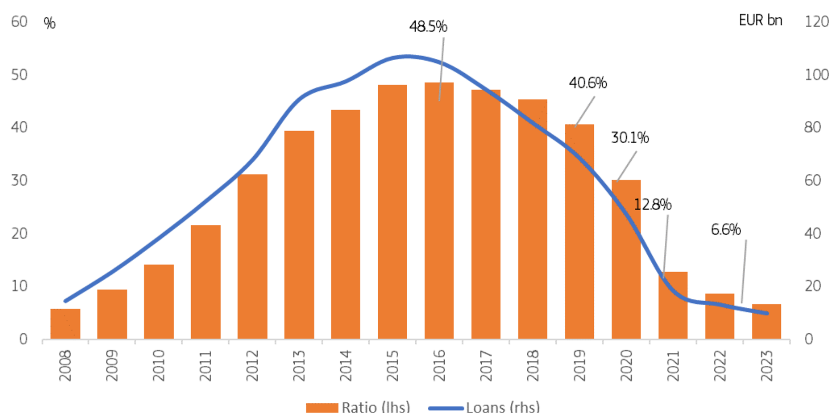
Despite the higher interest rates and the expiration of pandemic-related state support schemes, no significant increase the inflow of NPLs was observed. Abstracting from securitisations, the net inflow of NPLs ([11]) was positive in every quarter of 2023 except the last. This indicates possible difficulties in the ability of banks to sustain NPL reduction through organic workout. That being said, net NPL inflows remained contained overall and with no visible sectoral concentrations. The 'freeze' for 12 months of base interest rates at the levels observed at the end of March 2023 offered by most Greek banks for all performing mortgage debtors, was extended for another 12 months (until April-May 2025). The trend of banks to use predominantly inorganic measures (portfolio sales and securitisations) to reduce NPLs is likely to continue in 2024. Going forward, however, effective loan restructuring and internal loan workout should play a more

([10]) Source: Bank of Greece. The figures refer to NPLs as a share of total gross customer loans on a solo basis. The ECB reports NPLs for Greece and for the EU average as a share of total gross loans and advances (i.e., including cash balances at central banks and other demand deposits in the denominator) on a consolidated basis, which is different than the one reported by the Bank of Greece. The ECB figures for the third quarter of 2023 are 5.7% and 1.8% for Greece and the EU average respectively. Fourth quarter 2023 data are not yet available.

([11]) As defined by gross inflows of new NPLs minus loan curing.

prominent role in containing NPL formation and further reducing the remaining stock of NPLs on banks' balance sheets.

Graph 4.1: **Evolution of the stock of gross NPLs and the corresponding NPL-ratio for Greek banks**



Source: Bank of Greece, data on a solo basis

The workout of legacy non-performing debt outside of the banking sector remains a difficult and laborious task. With the bulk of NPLs having been transferred from banks' balance sheets as part of Hercules securitisations and outright NPL sales, risks related to NPLs have largely shifted to the non-banking financial sector. In addition, there are contingent liabilities to the state as state guarantees were given on senior tranches of securitisations. By the end of 2023, credit servicers in Greece were in charge of servicing EUR 69.5 billion of debt (excluding off-balance sheet claims). Underperformance (compared to original business plans) of various portfolios securitised under the original Hercules scheme continued, as the workout continues to face challenges, including judicial obstacles. As a result, some of the servicers' fees have been suspended. This underperformance requires continuous monitoring and is mainly the result of low recoveries from collateral liquidations owing to the suspension of enforcement proceedings during the COVID-19 pandemic. However, delays in court procedures, a high ratio of unsuccessful auctions and the illiquid secondary market for NPLs are also slowing down the process. This has therefore delayed the return of many borrowers to the Greek banking system.

4.1.2. Profitability

In 2023, all four systemically important banks achieved outstanding performance. After a strong rebound in bank profitability in the previous year, their combined net profit in 2023 soared to a record high of EUR 3.6 billion. This was primarily driven by a substantial increase in net interest income, as banks benefited from the repricing of their variable interest rate loans, while the pass-through to deposit rates was slower and substantially lower. Additionally, net fee and commission income grew, thanks to lending, card transactions, and asset management fees. Despite inflationary pressures, operating expenses were managed effectively, while loan-loss provisions also decreased overall due to a reduction in the volume of NPLs. The systemic banks' average cost-

to-income ratio of 35% in 2023 positions them among the best banks in the euro area in this category, while their return on equity was still in double digits, ending the year with 12%.

4.1.3. Solvency

Banks' solvency has further improved, fuelled by organic profitability. In December 2023, the Common Equity Tier 1 ratio of the Greek banking sector increased to 15.5% ([12]) from 14.5% in 2022. This was driven by increased profitability that boosted retained earnings, alongside only a slight uptick in risk-weighted assets. The total own funds ratio reached 18.7% in December 2023, up by 1.2 percentage points compared with December 2022. The banks are steadily narrowing the gap toward their final binding 2025 target for the Minimum Requirements for Own Funds and Eligible Liabilities (MREL). Following successful issuances of MREL-eligible securities in 2023, all systemic banks in Greece met their January 2024 non-binding interim targets and are well positioned to meet their final binding targets by the end of 2025. The improved performance and capital positions of the Greek banks in 2023 paved the way for the reinstatement of dividends, with all four systemic banks applying to the Single Supervisory Mechanism for distribution approval, which would signal the return to normality after almost 15 years.

4.1.4. Deposits and liquidity

Greek systemic banks have maintained robust liquidity positions thanks to their stable deposit base. Despite the slow pass-through of interest rate hikes to savers, the annual private deposit growth rate has been hovering around 3% in nominal terms. In December 2023, the average liquidity coverage ratio of the four systemic Greek banks was 217%, significantly exceeding the regulatory minimum of 100%. It is projected to remain above this level even after the full repayment of outstanding targeted longer-term refinancing operations due in June 2024. Moreover, deposits continue to fund the loan book, as indicated by the low average loan-to-deposit ratio, which decreased to 67.2% from 69.3% a year earlier.

4.1.5. Lending

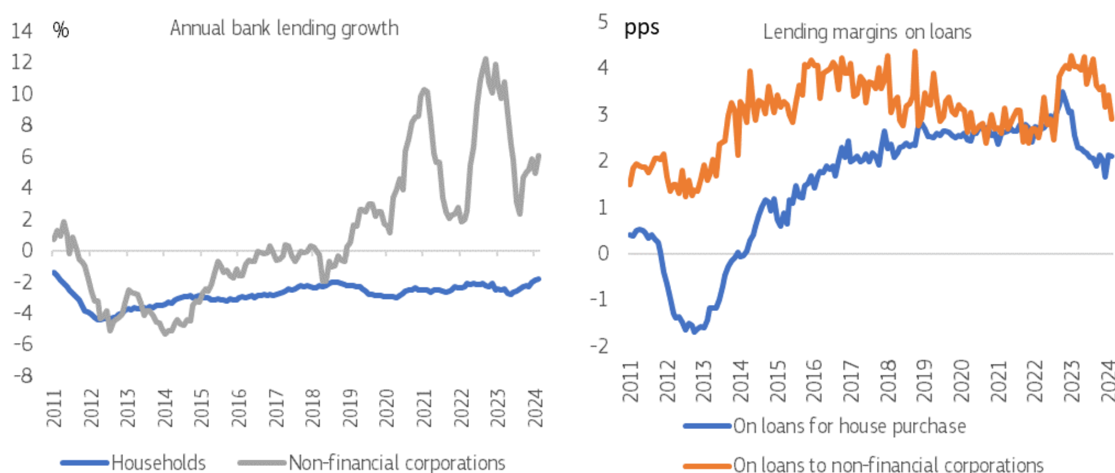
Credit growth moderated as higher borrowing costs constrained demand for new loans. The spread between lending and deposit rates for new and outstanding loans in December 2023 was among the highest in the euro area ([13]). This increase in interest rates deterred households which reduced their demand for mortgages, leading to subdued loan activity throughout the year. However, consumer lending performed well and registered 3.8% growth year-on-year. Additionally, the average annual rate of growth in credit to non-financial corporations, although it decelerated to 6.5% in 2023 compared to 8.3% in 2022, remained strong. The new loans to non-financial corporations were mainly channelled towards industry, energy, trade and tourism. Meanwhile, the

([12]) Source: Bank of Greece, April 2024, Financial Stability Review

([13]) See ECB risk assessment indicator (RAI) data for December 2023 and the Risk Dashboard, European Systemic Risk Board, March 2024.

strong take-up of cheap Recovery and Resilience Facility loans, which has accelerated in 2023, also supported lending growth to small and medium-sized businesses and large corporates.

Graph 4.2: **Bank lending and interest rate trends**



Source: Bank of Greece, ECB[14]

4.1.6. Key challenges

Persistent inflation and higher interest rates may weaken the debt-servicing capacity of borrowers and therefore constitute risks for banks' asset quality. Inflation erodes consumer purchasing power and adversely impacts the profitability of businesses through increased operating costs. At the same time, higher interest rates raise debt-servicing costs for both consumers and businesses. These challenges particularly burden those with variable-rate loans, who have seen their monthly loan payments increase significantly in the past 2 years. Nonetheless, the risk is somewhat mitigated by the voluntary capping of mortgage rates as well as rising disposable income due to higher employment and wages.

Banking sector profitability from high interest margins may have reached a peak. Profitability is expected to remain strong, but not at these high levels after interest rates start to decline again. In response, banks are expected to explore strategies to recover this forgone profit such as expanding their loan book, rebalancing their asset portfolios with by investing more in fixed-income instruments, and boosting non-interest income from fee and commission-generating activities. A perceived reduction in risks could decrease banks' cost of financing, boosting margins. In the meantime, banks may need to make additional provisions for called state guarantees that

([14]) Lending margins are measured as the difference between (1) monetary and financial institutions' (MFI) interest rates for new mortgages to households and a weighted average rate of new deposits with agreed maturity from households and non-financial corporations and (2) MFIs' interest rates for new business loans and a weighted average rate of new deposits with agreed maturity from households and non-financial corporations. For euro area countries, rates refer to loans granted to euro area residents.

are stuck in judicial proceedings and have not yet been paid, which would also weigh on their profitability.

The quality of capital among systemically important banks remains sub-optimal. On average, 44% ([15]) of the banks' capital consists of deferred tax credits (DTCs), although they have recorded a significant reduction in recent years. Banks have plans to reduce DTCs in their overall capital in the coming years, but their plans are contingent on maintaining future profitability. It is therefore advisable that the level of dividend distributions is appropriately balanced with the need to decrease the current share of DTCs.

The financial sector has substantial multi-channel interlinkages with the Greek sovereign. Other than the large stock of DTCs, these interlinkages appear in several other ways, for example through their material holding of domestic government bonds and a sizeable amount of state guarantees that were provided under the Hercules scheme. In addition, despite substantial divestments, the state – through the Hellenic Financial Stability Fund – continues to own a material stake in two banks, the National Bank of Greece (NBG) and Attica Bank, which further strengthens the bank-sovereign nexus.

4.1.7. The Hellenic Financial Stability Fund

The Hellenic Financial Stability Fund successfully completed four divestment transactions recently. It started with a full buyback transaction of its Eurobank shares (1.40% stake), followed by a private placement with UniCredit of its full stake in Alpha Bank (8.98%). This transaction was followed by a fully marketed offering of a 22% stake in the National Bank of Greece (out of the total stake of 40.39% at that time). The last successful full divestment was that of the fund's 27% shareholding in Piraeus Bank, which was completed in 2024. The fund currently holds stakes in the National Bank of Greece (18.39%) and Attica Bank (72.54%) and aims to complete the National Bank of Greece's divestment in 2024.

4.2 FINANCIAL SECTOR POLICIES

Restructurings under the out-of-court workout platform have gained further pace, confirming the upward trend. The submission of applications increased, with around 38 000 completed and/or finally submitted applications since the platform started operating (corresponding to EUR 15.6 billion of debt, up from EUR 7.7 billion in the first quarter of 2023). Around 15 400 requests have led to successful restructuring, representing EUR 5.5 billion of debt (compared to EUR 5.2 billion in the previous report). The approval rate from creditors increased in 2023 and is steadily above 70% (it reached 79% of proposed restructurings in Q1-2024), corresponding to 74% of the corresponding debt. However, it seems unlikely that approval rates from the side of creditors can increase further without affecting the viability of restructurings. In this context, the viability of restructurings needs to be monitored closely until the corresponding loans may be considered as

([15]) Bank of Greece, April 2024, Financial Stability Review

fully re-performing. In December 2023, the authorities adopted legislation to introduce several improvements to the platform, for instance: (i) making algorithm-based restructuring proposals to vulnerable debtors mandatory for creditors; (ii) offering a 3% fixed interest rate over a 3-year period; (iii) modifying the algorithm to allow for higher haircuts, up to 28%; (iv) providing electronic updates on debt status pending the processing of applications. Due to the recent adoption of these improvements, it is too early to see their positive impact on restructurings.

On the whole, the take-up of the other tools in the new insolvency framework remains stagnant. Interest in the early-warning mechanism remains practically non-existent, with only 4 applications since the beginning. It is also very low for the rehabilitation procedure (i.e., in-court restructuring), with 127 submissions to the court and 54 cases ratified up to the end of February 2024, possibly owing to the relatively high complexity of the proceedings and the high cost of the experts' assessment. Regarding the 'second chance' platform (i.e., the core insolvency proceedings), 2 827 applications have been validated by courts (against 2 426 in the previous report), for a total debt of approximately EUR 2.1 billion (compared to EUR 1.6 billion in the previous report). Interest in acquiring vulnerable debtor status remains high, with 45 958 submissions at the initial stage and 4 058 certifications (corresponding to an aggregate debt of EUR 140 million) up to the end of February 2024.

The concessionary process for the set-up of the sale & lease back organisation is expected to be completed in the second half of 2024. The process was delayed as the authorities introduced legal changes aimed to make the scheme more attractive to investors and beneficiaries. The related legal amendments were incorporated into Law L. 5072/2023 in December 2023. The entire process, including the ratification of the contract award by Parliament, is expected to be finalised by the end of September 2024 at the earliest. In the meantime, the interim scheme for the protection of primary residences of vulnerable households, which started in mid-September 2022, was extended in December 2023 for another 15 months or until **sale & lease back organisation** is operational. The take-up of the interim scheme continues to be extremely limited so far, with only 151 debtors having entered the scheme at the end of February 2024.

The high pace of clearance of the backlog of household insolvency cases has been maintained, with the case backlog almost dealt with. Of a total of 47 779 submissions, 47 770 (99.9%) have been validated by courts and 47 563 (99.5%) have received a hearing date, leaving 207 without one. 99.3% of cases with a hearing date were expected to have been heard by the end of February 2024, pending confirmation by court secretariates. Subject to this confirmation, it is possible that almost 99% of pending cases will have been resolved by the end of the second quarter of 2024. On decisions issued (86% of the total number of cases by the end of February 2024), 54.9% were positive, granting protection to applicants, 41% negative and 4% were of a non-defined outcome (for procedural reasons or due to non-reporting). Dealing with less than 1% of the backlog that remains outstanding is expected to take longer, given that some rescheduled cases still have remote hearing dates, up to the fourth quarter of 2026, or have not

yet received a hearing date. The tasks of addressing delayed reporting by court secretariats and securing the appointment of hearing dates for cases are therefore of high importance.

The track record of successfully conducted auctions reveals the persistence of procedural inefficiencies, with a large share of auctions either suspended for procedural reasons or were unsuccessful failed due to lack of interest. The number of auctions scheduled between November 2023 and the end of February 2024 shows a downward trend (7 910 in November 2023, 5 529 in December 2023, 5222 in January 2024 and 4 312 in February 2024), while the percentage of suspensions fluctuates around 50%. For auctions conducted, the percentage of barren auctions consistently and significantly exceeds that of successful ones (58% vs. 42% in September and November 2023 and January 2024, 57% vs. 43% in October 2023, 61% vs. 39% in December 2023, and 66% vs. 34% in February 2024). The authorities have mandated a working group in the Ministry of Justice to develop legislative proposals as part of a forthcoming set of amendments to the Code of Civil Procedure. It will address shortcomings that discourage prospective purchasers from participating in auctions, such as lack of funding, property-related overdue public utility bills, tenant eviction inefficiencies, lack of information on the current state of properties, non-availability on the platform of certificates, permits and plans relevant to the property being auctioned, and excessive delays in the judicial resolution of post-auction disputes (often assigned hearing dates beyond 2030) and in the registration of transactions in the cadastre (property register).

The processing of called state guarantees is set to be almost fully completed by the end of 2024, but many payments will remain on hold, awaiting court decisions. According to the Greek authorities, the value of claims processed by February 2024 reached almost EUR 2 billion, out of the total backlog estimated at around EUR 2.3 billion. The amount of total payments (EUR 731 million by February 2024) remains significantly below the amount processed. The ratio of payments vs. processed claims was 68% in the natural persons' loans segment and only 9% in the corporate loans segment (EUR 89 million paid out of EUR 1 044 million processed). The authorities plan to finish processing all cases by the end of 2024. To speed up and simplify the process, the authorities adopted law amendments to address various legal reasons for non-payments, which are expected to accelerate the processing rate and increase the percentage of payouts. However, in the corporate loans segment, a large part of the claims is expected to remain on hold, as the authorities will be obliged to wait for those cases to be irrevocably resolved in court, which could take several years.

The government also indicated that it will implement a strategy to strengthen capital markets in order to improve the resilience and efficiency of financing through the capital market. The strategy includes strengthening the regulatory and supervisory framework especially for fintech and environmental, social and governance investments, making improvements to capital market tax and operating frameworks, and encouraging financial literacy and wider investor participation in capital markets.

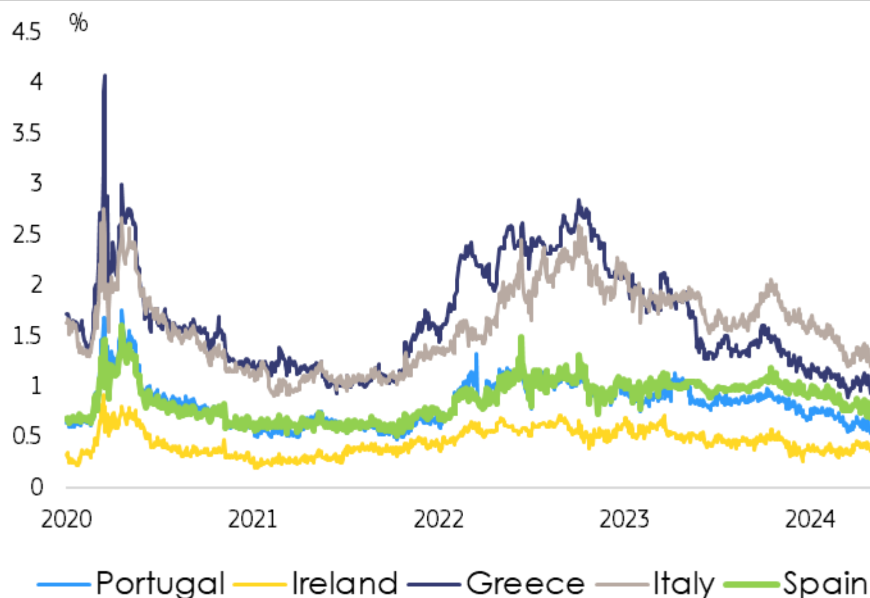
5. SOVEREIGN FINANCING AND CAPACITY TO REPAY

5.1. SOVEREIGN FINANCING

Yield spreads and levels have been decreasing, and Greece was upgraded to investment grade by a third major credit rating agency in December 2023. Following the upgrade to investment grade by DBRS and Standard and Poor's, Fitch also upgraded Greek government bonds to investment grade in December 2023. Spreads over the 10-year German Bund were around 100 basis points in April 2024, down by approximately 50 basis points since October 2023, while the re-financing rates dropped even more, and hovered around 3.5% (10-year maturity) in April 2024 against 4.4% in October 2023.

Greece has raised EUR 8.1 billion from the market so far in 2024. This includes EUR 1.1 billion from regular bond auctions from January to April, while the rest came from a new 10-year benchmark bond issued in February and a new 30-year benchmark bond issued in April. The yields achieved were 3.5% on the 10-year bond and 4.2% on the 30-year bond. Both issuances were heavily oversubscribed, and the bonds were bought predominantly by fund managers and banks, with a diverse international background.

Graph 5.1: **Sovereign yield spreads (10Y)**



Source: IHS Markit

Greece is considering a reduction of the cash buffer monitored by the ESM. Greece's total cash buffer was EUR 36 billion (16% of GDP) at the beginning of April 2024, including the EUR 15.7 billion balance of the cash buffer account. Given the achievement of investment grade and stable access to market funding, Greece is now considering gradually reducing the ESM cash buffer. This cash buffer account was also built through disbursements under the third economic adjustment programme and is dedicated to debt service.

5.2. CAPACITY TO REPAY

Public debt remains high but is expected to decline in the short term and stay on a downward trajectory in the medium and long term. General government debt continued its decline, falling to 161.9% at the end of 2023, down from 172.7% of GDP at the end of 2022. Both the increase in nominal GDP, and the primary surplus contributed to the reduction. Government debt is projected to decrease further to 153.9% of GDP in 2024 on the back of sustained primary surpluses, considerable proceeds from concessions, and economic growth. In a baseline scenario, this positive trend is projected to continue in the medium term, and the debt ratio is expected to fall to 119% of GDP in 2034. The downward trajectory continues to hinge on prudent fiscal policy. According to the debt sustainability analysis, Greece is deemed face low risks in the short term, high risks in the medium term and low risks in the long term ([16]).

Greece retains the capacity to service its debt. Greece's financing needs in the next two years are very low, remaining below 10% of GDP in both 2024 and 2025. With the partial early repayment of the Greek Loan Facility made in December 2023, EUR 5.3 billion of loan amortisation was brought forward, thereby decreasing the gross financing needs in 2024 and 2025. As a result, Greece has only about EUR 5 billion of long-term loan amortisation in both years. In 2024 the Public Debt Management Agency plans to decrease the level of short-term loans, which also contributes to the reduction of financing needs in 2025. The after-swap cash interest is expected to remain close to EUR 5 billion for the next 2 years.

The discussion among statistical authorities on the statistical treatment of deferred interest on the EFSF loan is ongoing. As part of the debt relief measures granted in 2012 and extended in 2018, Greece's interest payments on part of its EFSF loan have been deferred, and Greece is expected to start repaying these amounts as of 2033. The deferred amounts have been recorded as accrued interest expenditure, and therefore affect the budget balance, but the resulting liability has not been recorded as part of the Maastricht debt. In co-operation with Member States, Eurostat is reviewing the statistical recording of deferred interest on EFSF loans, for excessive deficit procedure purposes. If the statistical authorities decide to include these amounts into the Maastricht debt, debt figures could be revised upwards. Importantly, such a decision does not affect the assessment of Greece's debt sustainability or its financing needs, as the amounts to be repaid are the same.

Ö[16]) For more detailed results see Annex II.

6. ANNEX I. MAIN MACROECONOMIC AND FINANCIAL INDICATORS

Table A1.1: **Selected economic indicators – Greece**

	2019	2020	2021	2022	2023	2024	2025
Real economy			*(percent change)*				
Real GDP	1.9	-9.3	8.4	5.6	2.0	2.2	2.3
Domestic demand incl. inventories	1.1	-3.7	7.2	6.0	1.3	2.1	2.2
Private consumption expenditure	1.8	-7.4	5.8	7.4	1.8	1.7	1.6
Government consumption expenditure	2.4	3.0	1.8	2.1	1.7	0.4	0.0
Gross fixed capital formation	-2.2	2.0	19.3	11.7	4.0	6.7	8.4
Exports of goods and services	4.9	-21.5	24.2	6.2	3.7	4.2	4.0
Imports of goods and services	2.9	-7.3	17.9	7.2	2.1	3.8	3.6
Contribution to growth			*(percentage points)*				
Domestic demand (excl. inventories)	1.5	-4.3	6.8	7.1	2.1	2.2	2.3
Foreign trade	0.7	-5.6	0.6	-1.0	0.6	0.0	0.0
Changes in inventories	-0.3	0.6	0.9	-0.6	-0.7	0.0	0.0
Inflation			*(percent change)*				
GDP deflator	0.2	-0.8	1.5	7.8	4.5	3.0	2.2
HICP	0.5	-1.3	0.6	9.3	4.2	2.8	2.1
Labour market			*(percent change, unless otherwise stated)*				
Unemployment rate (% of labour force)	17.9	17.6	14.7	12.5	11.1	10.3	9.7
Employment	2.2	-2.6	1.2	2.5	1.0	0.9	0.7
Compensation per employee	-0.3	-0.4	3.8	2.8	5.5	4.3	2.7
Labour productivity	-0.3	-6.9	7.1	3.0	1.0	1.2	1.6
Unit labour costs	0.0	7.0	-3.1	-0.2	4.5	3.0	1.0
Public finance			*(percent of GDP)*				
General government balance	0.8	-9.8	-7.0	-2.5	-1.6	-1.2	-0.8
Total revenue	49.0	50.4	50.7	50.6	48.9	48.5	47.8
Total expenditure	48.1	60.2	57.7	53.1	50.5	49.6	48.6
General government primary balance	3.8	-6.8	-4.5	0.0	1.9	2.3	2.4
Gross debt	180.6	207.0	195.0	172.7	161.9	153.9	149.3
Balance of payments			*(percent of GDP)*				
Current external balance*	-1.5	-6.6	-6.8	-10.3	-6.3	-5.7	-5.3
Ext. bal. of goods and services	-1.7	-7.7	-7.8	-9.7	-4.9	-4.7	-4.4
Exports goods and services	40.1	32.1	40.9	49.1	44.9	45.6	46.1
Imports goods and services	41.8	39.8	48.7	58.9	49.8	50.3	50.5
Memorandum item			*(EUR bn)*				
Nominal GDP	183.3	165.0	181.5	206.6	220.3	231.9	242.6

Source: European Commission, Autumn 2023 European Economic Forecast.

Note: *The current account balance, the actual data and the forecast are based on the Balance of Payment statistics.

7. ANNEX II. DEBT SUSTAINABILITY ANALYSIS

This annex assesses fiscal sustainability risks for Greece over the short, medium and long term. It follows the multi-dimensional approach of the European Commission's 2023 Debt Sustainability Monitor, updated based on the Commission 2024 spring forecast.

A.1. SHORT-TERM RISKS

Short-term risks to fiscal sustainability are low. The Commission's early-detection indicator (S0) does not point to any major short-term fiscal risks (Table A2.2) ([17]). Government gross financing needs are expected to decrease to around 8½% of GDP on average over 2024-2025 (Table A2.1, Table 1). The sovereign credit rating has been steadily improving and has returned to investment grade at three of the four major rating agencies by the cut-off date of this report.

A.2. MEDIUM-TERM RISKS

Medium-term fiscal sustainability risks appear high.

The DSA baseline shows that the government debt ratio is expected to decline but remains at a high level in the medium term (at around 119% of GDP in 2034) (Table A2.1, Graph 1, Table 1) ([18]). The debt reduction is supported by the assumed structural primary surplus of 1.7% of GDP (excluding changes in cost of ageing) as of 2024. Compared to historical data running from 1980, this may appear fairly ambitious. Indeed, less than one fourth of past fiscal positions were more stringent than the one assumed in the baseline. (Table A2.2) ([19]). However, compared with more relevant recent performance, maintaining such a SPB seems plausible (as the average SPB computed over the last 15 years reaches a surplus of 3.6% of GDP). The debt decline also benefits from a still favourable but declining snowball effect of around -0.6% of GDP annually on average over 2025-2034, which is also supported by the impact of Next Generation EU. On the other hand, stock-flow adjustments should slightly mitigate the projected debt reduction over the period 2025-2034 (-0.5 pps. on average per year), due to the effect of deferred interests until 2032.

The baseline projections are stress-tested against four alternative deterministic scenarios to assess the impact of changes in key assumptions relative to the baseline

([17]) The S0 is a composite indicator of short-term risk of fiscal stress. It is based on a wide range of fiscal and financial-competitiveness indicators that have proven to be a good predictor of emerging fiscal stress in the past.

([18]) The assumptions underlying the Commission's 'no-fiscal policy change' baseline include in particular: (i) a structural primary surplus, before changes in ageing costs, of 1.7% of GDP from 2024 onwards; (ii) inflation converging linearly towards the 10-year forward inflation-linked swap rate 10 years ahead (which refers to the 10-year inflation expectations 10 years ahead); (iii) the nominal short- and long-term interest rates on new and rolled over debt converging linearly from current values to market-based forward nominal rates by T+10; (iv) real GDP growth rates from the Commission 2024 spring forecast, followed by the EPC/OGWG 'T+10 methodology projections between T+3 and T+10 (average of 0.8%); (v) ageing costs in line with the 2024 Ageing Report (European Commission, Institutional Paper 279, April 2024). For information on the methodology, see the 2023 Debt Sustainability Monitor see the 2023 Debt Sustainability Monitor (European Commission, Institutional Paper 271, March 2024).

([19]) This assessment is based on the fiscal consolidation space indicator, which measures the frequency with which a tighter fiscal position than assumed in a given scenario has been observed in the past. Technically, this consists in looking at the percentile rank of the projected SPB within the distribution of SPBs observed in the past in the country, taking into account all available data from 1980 to 2023.

(Graph 1). Under the *historical structural primary balance (SPB) scenario* (i.e., the SPB returns to its historical 15-year average) the debt ratio would be lower than under the baseline by 15.7 pps. in 2034. However, under the *adverse interest-growth rate differential scenario* (i.e., the interest-growth rate differential deteriorates by 1 pp. compared with the baseline), the debt ratio would be higher than under the baseline by 9.6 pps. in 2034. Under the *financial stress scenario* (i.e., interest rates temporarily increase by 5.3 pps. compared with the baseline) the government debt ratio would be higher by around 3.0 pps. in 2034. Finally, under the *lower structural primary balance scenario* (i.e., the projected cumulative deterioration in the SPB between 2023 and 2024 is increased by 50%) the debt ratio would be higher than under the baseline by 0.9 pps. in 2034.

The stochastic projections indicate medium risk, pointing to the moderate sensitivity of these projections to plausible unforeseen events ([20]). These stochastic simulations indicate a 15% probability that the debt ratio will be higher in 2028 than in 2023, implying medium risks given the high debt level. In addition, the uncertainty surrounding the baseline debt projections (as measured by the difference between the 10th and 90th debt distribution percentiles) is high, reaching around 56% of GDP in five years' time (Graph 2).

A.3. LONG-TERM RISKS

Long-term fiscal sustainability risks appear overall low. This assessment is based on the combination of two fiscal gap indicators, capturing the required fiscal effort to stabilise debt (S2 indicator) and bring to 60% of GDP (S1 indicator) over the long term ([21]). This assessment is driven by the favourable initial budgetary position and projected decline in ageing costs. Hence, these results are conditional on the country maintaining a sizeable SPB over the long term, and duly implementing legislated pension reforms.

The S2 indicator points to low fiscal sustainability risks. The indicator shows that, relative to the baseline, the SPB would not need to improve to ensure debt stabilisation over the long term. This result is underpinned by a favourable initial budgetary position (-0.9 pps.) and the projected decline in ageing-related costs (contribution of -0.6 pps.). Ageing costs' developments are primarily driven by both a projected decrease in public pension expenditure (-1.0 pp.) and a decrease in education spending, which is only partly offset by a projected increase in health-care spending (0.7 pps.) (Table A2.1, Table 2).

([20]) The stochastic projections show the joint impact on debt of 10 000 different shocks affecting the government's budgetary position, economic growth, interest rates and exchange rates. This covers 80% of all the simulated debt paths and therefore excludes tail events.

([21]) The S2 fiscal sustainability indicator measures the permanent SPB adjustment in 2025 that would be required to stabilise public debt over an infinite horizon. It is complemented by the S1 indicator, which measures the permanent SPB adjustment in 2025 to bring the debt ratio to 60% by 2070. The impact of the drivers of S1 and S2 may differ due to the infinite horizon component considered in the S2 indicator. For both the S1 and S2 indicators, the risk assessment depends on the amount of fiscal consolidation needed: 'high risk' if the required effort exceeds 6% of GDP, 'medium risk' if it is between 2% and 6% of GDP, and 'low risk' if the effort is negative or below 2% of GDP. The overall long-term risk classification combines the risk categories derived from S1 and S2. S1 may notch up the risk category derived from S2 if it signals a higher risk than S2. See the 2023 Debt Sustainability Monitor for further details.

The S1 indicator points to low fiscal sustainability risks. The indicator shows that the country does need to further improve its fiscal position to reduce its debt to 60% of GDP by 2070. This result is mainly driven by the favourable initial budgetary position (contribution of -1.6 pps.). However, this effect is offset by the current distance of the Greek government debt ratio from the 60% reference value, which partially reduces the fiscal room for manoeuvre (1.9 pps.) (Table A2.1, Table 2).

Finally, several additional risk factors need to be considered in the assessment. On the one hand, risk-increasing factors are related to the recent increase in interest rates, and to the state guarantees granted recently. Contingent liability risks continue to stem from the non-performing loans in the banking sector (although the share of non-performing loans witnessed a sharp reduction in the previous years, it remains at the highest level in the EU), and pending legal cases against the state with potential budgetary implications also pose fiscal risks. On the other hand, risk-mitigating factors are related to the structure of the debt. In particular, the major share of debt is still held by official lenders at low interest rates and has a particularly long maturity structure compared with peer countries. Moreover, the fact that public debt is completely denominated in euro, excludes currency risks.

Table A2.1: **Debt sustainability analysis – Greece**

Table 1. Baseline debt projections	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Gross debt ratio (% of GDP)	**195.0**	**172.7**	**161.9**	**153.9**	**149.3**	**144.6**	**141.0**	**137.1**	**133.1**	**129.2**	**125.6**	**122.2**	**120.4**	**118.8**
Changes in the ratio	-12.0	-22.3	-10.8	-8.1	-4.6	-4.6	-3.7	-3.8	-4.1	-3.9	-3.6	-3.4	-1.9	-1.6
of which														
Primary deficit	4.5	0.0	-1.9	-2.3	-2.9	-2.7	-2.6	-2.5	-2.5	-2.4	-2.3	-2.2	-2.0	-1.9
Snowball effect	-16.3	-21.2	-7.3	-4.7	-3.2	-1.1	-0.2	-0.4	-0.6	-0.4	-0.2	-0.1	0.0	0.1
Stock-flow adjustments	-0.2	-1.1	-1.6	-1.1	1.5	-0.8	-0.9	-1.0	-1.0	-1.0	-1.1	-1.1	0.2	0.2
Gross financing needs (% of GDP)	19.4	13.8	12.1	7.9	9.4	10.2	9.7	11.3	10.7	11.2	12.8	11.8	16.3	14.4

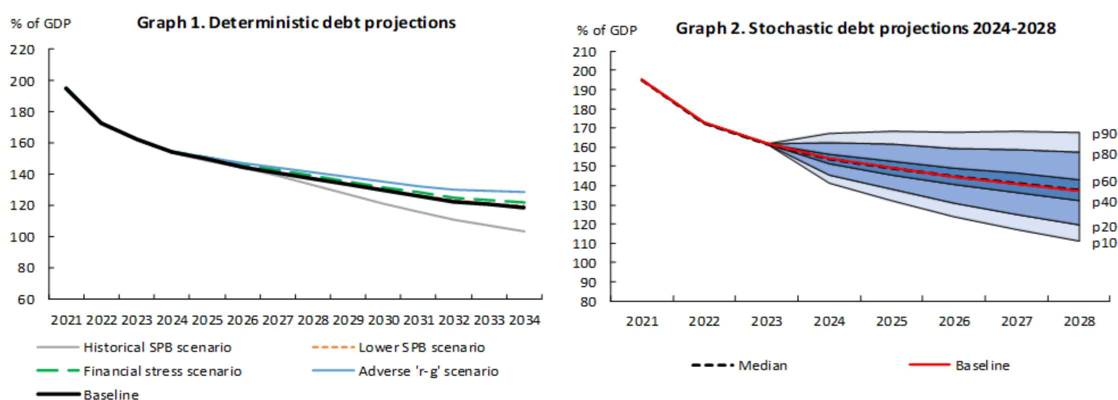


Table 2. Breakdown of the S1 and S2 sustainability gap indicators

		S1	S2
Overall index (pps. of GDP)		**0.4**	**-1.5**
of which			
Initial budgetary position		-1.6	-0.9
Debt requirement		1.9	
Ageing costs		0.2	-0.6
of which	*Pensions*	-0.2	-1.0
	Health care	0.7	0.7
	Long-term care	0.0	0.0
	Education	-0.2	-0.3

Source: Commission services.

Table A2.2: **Heat map of fiscal sustainability risks - Greece**

Short term	Medium term - Debt sustainability analysis (DSA)								Long term		
Overall (S0)	Overall		Deterministic scenarios: Baseline	Historical SPB	Lower SPB	Adverse 'r-g'	Financial stress	Stochastic projections	S2	S1	Overall (S1+S2)
LOW	HIGH	Overall	HIGH	HIGH	HIGH	HIGH	HIGH	MEDIUM	LOW	LOW	LOW
		Debt level (2034), % GDP	118.8	103.1	119.7	128.3	121.8				
		Debt peak year	2024	2024	2024	2024	2024				
		Fiscal consolidation space	23%	21%	24%	23%	23%				
		Probability of debt ratio exceeding in 2028 its 2023 level						15%			
		Difference between 90th and 10th percentiles (pps. GDP)						56.4			

(1) Debt level in 2034. Green: below 60% of GDP. Yellow: between 60% and 90%. Red: above 90%. (2) The debt peak year indicates whether debt is projected to increase overall over the next decade. Green: debt peaks early. Yellow: peak towards the middle of the projection period. Red: late peak. (3) Fiscal consolidation space measures the share of past fiscal positions in the country that were more stringent than the one assumed in the baseline. Green: high value, i.e. the assumed fiscal position is plausible by historical standards and leaves room for corrective measures if needed. Yellow: intermediate. Red: low. (4) Probability of debt ratio exceeding in 2028 its 2023 level. Green: low probability. Yellow: intermediate. Red: high (also reflecting the initial debt level). (5) the difference between the 90th and 10th percentiles measures uncertainty, based on the debt distribution under 10000 different shocks. Green, yellow and red cells indicate increasing uncertainty. (For further details on the Commission's multidimensional approach, see the 2023 Debt

Source: Commission services.

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